SECRET

Central Intelligence Agency
Office of the Deputy Director for Intelligence

35

21 March 1986

NOTE TO: The Secretary of State

Mr. Secretary —

Attached are several brief assessments of the domestic situation in Libya, a subject you asked us to address in your note to Bill. [redacted] 25X1

[redacted] 25X1

Bob.

Robert M. Gates
Deputy Director for Intelligence

Attachment:
[redacted] 25X1

SECRET [redacted] 25X1

Page Denied

Next 1 Page(s) In Document Denied

[redacted] 25X1

5. Soft oil market conditions pose the greatest threat to the economy and probably the regime. Tripoli loses $400 million annually for each dollar decline in oil prices at current export levels. Every drop in oil exports of 100,000 barrels per day costs the regime over a year's period $730 million at a $20 per barrel price. An average annual price of $20 per barrel would have little impact on the economy if current oil export levels can be maintained. We estimate a shortfall of $1.5 billion on the current account, which could be financed by drawing down accessible foreign exchange reserves. [redacted] 25X1

6. An average annual price of $15 per barrel would force Tripoli to make difficult and risky political choices. Without an increase in export levels, Tripoli would be able to generate around $6.5 billion in foreign exchange revenues, not even enough to pay for last year's $7 billion estimated bill for imported goods alone. Hefty cuts in imports will be needed unless Qadhafi swallows his pride and tries to obtain funds from Western banks. Further reductions in imports, however, almost certainly would affect essential civilian consumer goods and military equipment as well as priority projects. Any increased popular dissatisfaction could generate renewed coup plotting and force Qadhafi to rely even more heavily on his security forces to remain in power. [redacted] 25X1

7. The boost Qadhafi's position has received from his posturing with the US is likely to be short-lived. Once the danger of a military clash with the US fades, the Libyan armed forces and public will increasingly focus their attention on domestic grievances. Disaffected officers and other dissidents may be more willing to resume their coup plotting and other anti-regime activities, but they almost certainly will delay their timetable for action to avoid being identified as instruments of the US. [redacted] 25X1

[redacted] 25X1

25X1

25X1 [redacted] [redacted]

Page Denied

Sanitized Copy Approved for Release 2011/09/14 : CIA-RDP90G01359R000200100021-4

[redacted] 25X1

Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

18 March 1986

Qadhafi's Internal Position: The Impact of Sanctions

Summary

The confrontation with the US has provided Libyan leader Qadhafi with a brief respite from the deterioriation of his internal position. [redacted] 25X1 [redacted] Qadhafi's senior advisers have suspended their factional infighting. 25X1 Potential coup plotters probably will lay low for the time being to avoid being identified as US puppets. At the same time, Qadhafi has been unable to use the current tensions with Washington to expand his dwindling domestic support and basic popular grievances against the regime remain. US economic sanctions--although not decisive--contribute to these grievances by reducing Qadhafi's economic room to maneuver. Once Qadhafi's opponents perceive that the US military threat to Libya has receded, serious antiregime sentiment in the armed forces and public--fueled by declining revenues--is likely to reemerge. [redacted] 25X1

* * * * * *

Qadhafi's regime was threatened late last year by a power struggle between his principal deputy Abd al-Salam Jallud and members of Qadhafi's own tribe, [redacted] 25X1 [redacted] the infighting led to the 25X1 sacking of Qadhafi's cousin and security chief Khalifa Hunaysh, and the killing of another cousin, Hassan Ashqal, commander of the Sirte Military District. [redacted] 25X1 25X1

[redacted]

This memorandum was prepared by [redacted] the Maghreb Branch, Arab-Israeli Division, Office of Near East and South Asian Analysis. Information as of 18 March 1986 was used in preparation of this paper. Questions and comments should be directed to Chief, Arab-Israeli Division [redacted] 25X1

25X1 [redacted] [redacted] 25X1

[redacted] 25X1

Hunaysh was restored to his former position last month, although with diminished influence. [redacted] 25X1

The confrontation has helped Qadhafi in other ways. He has portrayed the absence of US military retaliation as a lack of US resolve in the face of Libyan defiance. To the extent this pose perpetuates Qadhafi's aura of strength it may for a time discourage disaffected elements in Libya from challenging the regime. Oppositionists in exile also will probably curtail their activites for some time after the crisis passes to avoid being branded as US catspaws. [redacted] 25X1

Indeed, Qadhafi may even view a limited US strike on Libya as a desirable means of diverting public attention from serious domestic problems. [redacted] 25X1

[redacted] 25X1

Impact on the Economy

The freeze on Libyan financial assets has had the greatest impact among the various US economic restrictions imposed last month. Libya lost access to about $700 million--as much as 13 percent of its foreign exchange reserves--and has had increased trouble in servicing contract payments, especially to oil companies. Moreover, Tripoli's attempts to circumvent US sanctions have met with limited success. Other Arab states so far have offered little more than vocal support. [redacted] 25X1

The impact of US sanctions on the oil sector is small. We estimate that Libya continues to produce 1.1-1.2 million b/d of oil. While most US oil workers have left Libya, domestic oil workers and other foreign technicians probably can maintain production and possibly increase it by several hundred thousand barrels per day. [redacted] 25X1
[redacted] spare parts are not a problem because stocks are adequate or can be acquired through non-US suppliers. In addition, [redacted] completion of other Libyan development programs, including the Great Manmade River project, will be largely unaffected because of the substantial participation of West European and South Korean firms that can easily replace US firms. [redacted] 25X1

Soft oil market conditions pose the greatest threat to the economy and probably the regime. Tripoli loses $400 million annually for each one dollar decline in oil prices at the current export volume. Conversely, every 100,000 b/d drop in oil exports costs the regime $730 million at the current $20 per barrel price. An average annual price of $20 per barrel would have little impact on the economy if current oil export levels can be maintained. We estimate a shortfall of $1.5 billion on the 25X1

[redacted] 25X1

current account, which could be financed by drawing down accessible foreign exchange reserves. [redacted] 25X1

An average annual price of $15 per barrel would force Tripoli to make difficult and risky political choices. Without an increase in export levels, Tripoli would be able to generate around $6.5 billion in foreign exchange revenues, not even enough to pay for last year's $7 billion estimated bill for imported goods alone. Hefty cuts in imports will be needed unless Qadhafi swallows his pride and tries to obtain funds from Western banks. Further reductions in imports, however, almost certainly would affect essential civilian consumer goods and military equipment as well as priority projects. [redacted] 25X1

Continuing Discontent

Despite the limited direct impact of US economic and political sanctions, Qadhafi has not been able to translate his defiance of Washington into broadened domestic support for his regime. [redacted] most Libyans--civilian and military--discount the possibility of a US attack on Libya, and remain unmoved by government-orchestrated rallies to generate both mass support for Qadhafi and anti-US fervor. Of more importance to the average Libyan is the fact that their standard of living continues to decline. Qadhafi's economic policies and foreign adventures are increasingly cited as the culprits. 25X1

[redacted] 25X1

The armed forces, which are the greatest potential threat to Qadhafi's regime, also remain disaffected. Armed forces morale is [redacted] at an all time low, and [redacted] distribution problems have led to acute shortages of provisions. Large-scale arrests of military officers last year suggest that unhappiness with the regime had translated into coup plotting. [redacted] the popular militia also suffers from inefficiency and poor morale, and [redacted] the militia is not even issued ammunition--almost certainly because Qadhafi is not confident of its loyalty. [redacted] 25X1 25X1 25X1 25X1 25X1 25X1

[redacted] 25X1 25X1

[redacted] 25X1 25X1

Sanitized Copy Approved for Release 2011/09/14 : CIA-RDP90G01359R000200100021-4

[redacted] 25X1

Outlook

The boost Qadhafi's position has received from his posturing with the US is likely to be short-lived. As the danger of a military confrontation with the US fades the Libyan armed forces and public will increasingly focus their attention on domestic grievances. Disaffected officers and other opposition elements may be more willing to resume their activity. They may delay their timetable, however, to avoid being perceived as US agents. [redacted] 25X1

The perception of a diminished US military threat probably will encourage rivals within the regime to reopen their competition for power. Such infighting is especially threatening to the regime as it tends to pit against each other Qadhafi's only secure bases of support--the Qadhafa tribe and the Revolutionary Committees--and may provide opportunities for a coup. In addition, grudges felt among Ashqal's relatives--a different clan within the tribe--might generate acts of revenge directed against Qadhafi himself. [redacted] 25X1

The continued absence of US military retaliation almost certainly has bolstered Qadhafi's confidence that he can weather the crisis with Washington. Tripoli's willingness to step up pressure in Chad, and the diminishing volume of Libyan propaganda regarding the latest series of US naval maneuvers support this judgment. Moreover, [redacted] 25X1 25X1 If, as we believe, this attitude reflects current thinking in Tripoli, then Qadhafi is likely to continue his aggressive policy--possibly including terrorist activities--against US and Western interests, especially if he can conceal Libyan involvement in specific operations by relying on anti-Arafat Palestinians and other radicals. [redacted] 25X1 25X1

25X1

25X1

[redacted]

Top Secret [redacted] 25X1

LIBYA: **Impact of US Oil Sanctions**

US sanctions have disrupted some Libyan oil exports by increasing marketing difficulties, but they have had little effect on oilfield or refinery operations. [redacted] 25X1

[redacted] Libyan oil production may have fallen by as much as 200,000 barrels per day in the last two weeks, to about 1 million b/d. The drop in oil output is largely the result of the soft oil market, however, not production problems. [redacted] 25X1 25X1 25X1

[redacted] sales in the current glutted oil market will be difficult without severe price discounts. Libya also appears to be increasing exports of refined products to replace lost crude sales. [redacted] 25X1 25X1 25X1

[redacted] US companies in Libya are complying with the law and have stopped all liftings. [redacted] the US restrictions have delayed some petroleum-related projects but caused no serious disruption in oilfield operations. [redacted] US service companies and most US technicians are being replaced by firms and personnel from the UK, France, and West Germany. Oil equipment sales and services disrupted by the US sanctions will continue to be replaced by foreign companies with comparable capabilities because service opportunities elsewhere are declining. [redacted] 25X1 25X1 25X1 25X1 25X1

The freeze on Libyan financial assets has prevented Tripoli from collecting some $150 million for oil sold in December. [redacted] 25X1 25X1

Libya's increasingly tough posture toward the US producing companies probably suggests Tripoli now realizes they must be replaced. [redacted] Libyan oil officials have stopped communicating with US oil producers except through telex messages—suggesting Libya wants documentation for legal proceedings against the US producers. Firms from several countries, including Argentina, Austria, Italy, and Hungary, are interested in taking over US oil concessions in Libya. With US companies unable to sell their assets to foreign firms or subsidiaries, however, Libya will try to buy out the US concessions on attractive terms; nationalization probably would be a last resort because it might prompt US retaliation and damage Tripoli's reputation with foreign companies. [redacted] 25X1 25X1

Top Secret [redacted] 25X1

Libya: Economy Under Siege [redacted] 25X1

The recent drop in world oil prices and US economic sanctions are the latest jolts to hit the Libyan economy. They come at a time of unprecedented popular discontent over Libyan leader Qadhafi's misguided economic policies and penchant for costly foreign adventures. The freeze on Libyan assets in US banks has deprived Tripoli of access to approximately $700 million, and closed off an important channel for revenues from the sale of Libyan crude. The sharp drop in oil prices—unless accompanied by an offsetting increase in liftings—will leave Tripoli even less maneuvering room to manage the economy this year. A dip in oil prices to $15 per barrel would confront Qadhafi with an unmanageable cash shortage unless he makes politically risky cuts in consumer imports or swallows his pride and borrows on the international market. Further reductions in imports almost certainly would increase the chances that the military will decide to move against Qadhafi. [redacted] 25X1

Living With Less

Qadhafi's speech last September calling for a greater public sacrifice underscores growing concern in Tripoli over the poor state of the economy. Although oil revenues have stabilized at about $11 billion over the past two years, this is down by almost half from the 1980 level. Unlike previous speeches extolling revolutionary successes, the Libyan leader urged the people to eat camel meat and wild game rather than imported lamb and beef. Qadhafi's uneasiness is supported by recent statistics that suggest real GDP fell 2 percent last year, the fifth consecutive year of decline. Per capita GDP is now below the 1977 level and inflation is at a near-record 15 percent. [redacted]

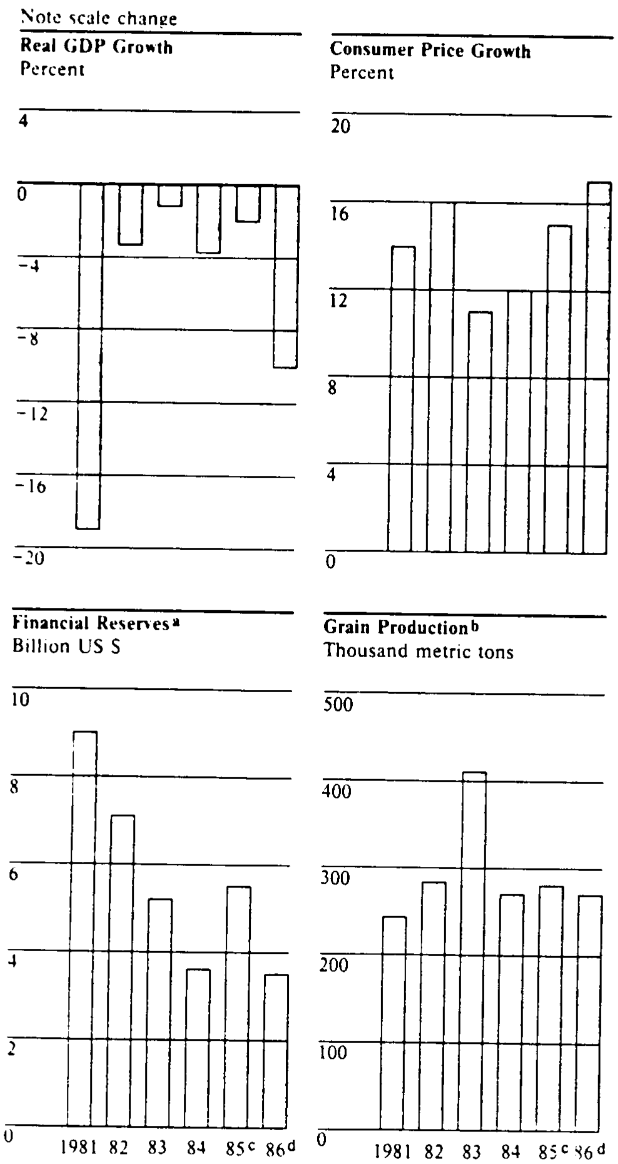
Living conditions for the average Libyan continue to deteriorate. [redacted] shelves in most government-operated supermarkets are empty or poorly stocked except on traditional holidays. Food lines are longer and more contentious as people search for basic staples. Hoarding has become a way of life for most and a thriving black market has evolved, despite numerous attempts to control such activity. Moreover, the quality of health care and education—hallmarks of Qadhafi's revolution—has fallen off sharply. While few starve in Libya, most agree that Qadhafi's economic policies have failed. [redacted] 25X1

The government budget, foreign workers, and foreign contractors have all been casualties of the revenue squeeze. Development spending was down by 20 percent, and the administration budget had to be cut for only the second time since 1969. Actual spending levels probably are as much as 40 percent lower, however, based on import figures and press reporting. [redacted] 25X1 [redacted] the expulsion of 150,000 foreign 25X1 workers last year was intended to save $1 billion in worker remittances. To shore up Tripoli's foreign exchange position, payments to foreign suppliers were further delayed. The slowdown probably pushed Libyan commercial arrears to an estimated $4 billion, straining relations with several of Libya's leading trading partners, including Moscow. [redacted] 25X1

Nevertheless, work on priority development projects is continuing. [redacted] 25X1 [redacted] state ministries decided last summer to 25X1 finish those projects that were more than fifty percent complete and to cancel or delay others under the 1986-90 Plan, [redacted] 25X1 [redacted] Exceptions to the decision include 25X1 Qadhafi's priority Great Manmade River project, an iron mill at Misratah, and an aluminum smelter at Zuwara. Qadhafi also has attached increased 25X1 importance to agricultural development to limit dependence on Western food supplies. One benefit 25X1

Sanitized Copy Approved for Release 2011/09/14 : CIA-RDP90G01359R000200100021-4

Libya: Economic Indicators, 1981-86



[a] End of period; excluding 3.6 million ounces of gold.
[b] Includes wheat and barley.
[c] Estimated.
[d] Projected.

308150 2 86

of the development slowdown has been that it limited the impact of the expulsion of foreign workers. 25X1

Defense spending also has felt the pinch. Military imports probably fell to $1.7 billion last year from their peak of almost $3 billion in 1982. Most of this decline reflects the completion of deliveries under existing contracts. Other defense-related spending has remained relatively stable. Qadhafi depends heavily on the military and security forces to stay in power and knows that they pose the greatest threat to his regime. As a result, further cuts in defense spending are not likely. 25X1

Qadhafi's draconian measures to stem the economic slide have had some positive effects. The sharp cut in imports and foreign workers, coupled with oil exports slightly above Libya's OPEC production quota of 990,000 b/d, probably produced a small surplus in the current account for the first time since 1982. These factors and delayed payments to foreign contractors helped push foreign exchange reserves to $5.5 billion by yearend—10 months of imports—from a low of $3.3 billion in January 1985. 25X1

US Economic Sanctions

The freeze on Libyan financial assets has had the greatest impact among the various US economic restrictions imposed last month. Libya lost access to as much as 13 percent of its foreign exchange reserves and has had increased trouble in servicing contract payments—especially to oil companies. Moreover, Tripoli's attempts to circumvent US sanctions have met with limited success. Other Arab states so far have offered little more than vocal support. 25X1

The impact of US sanctions on the oil sector is small. We estimate that Libya continues to produce 1.1-1.2 million b/d of oil. While most US oil workers have left Libya, domestic oil workers and other foreign technicians probably can maintain

25X1

Political Strains of Austerity

For the most part, Qadhafi is a judicious political calculator. He has often been able to respond flexibly to his political and economic troubles, tactically changing course without losing sight of his revolutionary goals. When he perceives threats to himself or that his revolution is failing, however, Qadhafi's usually pragmatic decisionmaking can falter. We judge that Qadhafi is now in such a strained period, and flawed decisionmaking could well compound his economic problems. [redacted] 25X1

Qadhafi has increasingly surrounded himself with people whom he believes he can trust—relatives, fellow tribesmen, or young radicals committed to his ideology. [redacted] *professional officials in key positions—particularly the security services—are being replaced by young extremists who have grown up under Qadhafi and are considered ideologically sound. Qadhafi also has staged rallies in tribal areas to convince both internal and external opponents that he continues to enjoy popular support. For example, this year, for the first time, Qadhafi celebrated the anniversary of his coup in the relatively secure city of Sebha. Instead of the usual displays of military units, he featured parades of Revolutionary Committee cadre. In our view, this relects Qadhafi's distrust of the Army's loyalty and was intended to demonstrate to his adversaries that the Libyan revolution would continue even if he were personally eliminated.* [redacted] 25X1 25X1 25X1

At the same time there has been increased infighting among senior officials as they prepare themselves for any succession struggle. [redacted] *In our view, this jockeying for political position reflects a lack of confidence in Qadhafi's viability and threatens the unity of the regime.* [redacted] 25X1 25X1 25X1 25X1

Qadhafi's popular base will continue to erode as long as he responds to the challenges to his regime by closetting himself with a diminishing circle of loyal revolutionaries. Qadhafi is almost entirely dependent on the continued loyalty and competence of the Revolutionary Committees and the security services to preserve his position. At present, these institutions appear capable of protecting him. Nonetheless, political and economic trends in Libya are running against Qadhafi, and we assess his chances of surviving until 1987 as little better than even. [redacted] 25X1

production and possibly increase it by several hundred thousand barrels per day. [redacted] spare parts are not a problem because stocks are adequate or can be aquired through non-US suppliers. [redacted] completion of other Libyan development programs, including the Great Manmade River project, will be largely unaffected because of the substantial participation of West European and South Korean firms that can easily replace US firms. [redacted] 25X1 25X1 25X1 25X1 25X1

Outlook

Soft oil market conditions pose the greatest threat to the economy and probably the regime. Tripoli loses $400 million annually for each one dollar decline in oil prices at the current export volume. Conversely, every 100,000-b/d drop in oil exports costs the regime $730 million at the current $20 per barrel price. [redacted] 25X1

Libya: Current Account Trends, 1981-86

Billion US $

	1981	1982	1983	1984	1985	1986
Current account balance	**−5.3**	**0.6**	**−1.0**	**−1.5**	**0.6**	**−1.0**
Trade balance	−1.3	4.3	3.5	3.1	4.1	2.5
Exports (f.o.b.)	15.2	13.6	11.9	11.2	11.0	8.8 [a]
Imports (f.o.b.)	16.5	9.3	8.4	8.1	7.0	6.3 [b]
Non-Communist	13.0	5.8	5.9	5.9	4.9	4.7
Military	0.8	1.1	0.6	0.4	0.5	0.5
Communist, nonmilitary	1.8	1.7	1.3	1.0	0.9	0.7
Soviet	0.3	0.3	0.4	0.2	0.1	0.1
Other	1.5	1.4	0.9	0.8	0.7	0.5
Communist, military	1.8	1.9	1.3	1.3	1.2	1.0
Soviet	1.2	1.0	0.7	0.8	0.7	0.6
Other	0.6	0.9	0.6	0.5	0.5	0.4
Net services	−3.6	−3.1	−4.2	−4.1	−3.3	−3.2
Freight and insurance	−2.0	−1.1	−1.0	−1.0	−0.8	−0.7
Investment income receipts	1.5	1.1	0.8	0.4	0.3	0.2
Other	−3.2	−3.1	−3.9	−3.6	−2.8	−2.7
Grants	−0.4	−0.5	−0.4	−0.4	−0.4	−0.3
Change in reserves	−4.1	−1.9	−1.8	−1.6	2.1	−2.0

[a] Projected, assuming average exports of 1.2 million b/d at $20 per barrel.

[b] Based on additional reductions in military- and project-related imports.

[redacted] 25X1

A *$20 per barrel* oil price probably would have little impact on the economy during the next year if current export levels can be maintained. Assuming no change in imports, Tripoli would face a projected current account deficit of roughly $1.5 billion this year. Such a shortfall could be sustained by drawing down accessible foreign exchange reserves. [redacted]

An average price of *$15 per barrel* would force Tripoli to make some difficult choices. Tripoli would face a projected current account deficit of $3.0-3.5 billion this year, equal to about 70 percent of available foreign exchange reserves. Hefty import reductions, however, almost certainly would hit both civilian goods and military equipment as well as priority projects. Any increased popular dissatisfaction could generate renewed coup plotting and force Qadhafi to rely even more heavily on his security forces to remain in power. [redacted] 25X1

A steep drop in oil prices also limits Qadhafi's ability to purchase support by reordering economic priorities and channeling the savings into the consumer sector. In response, he could step up oil production to boost export revenues and purchase basic commodities to ease mounting tensions over living standards. An increase of 140,000 b/d in oil exports at $20 per barrel would boost revenues by the amount of import reductions last year. Such volume, however, would be difficult to sustain under current market conditions without depressing prices further. [redacted]

25X1

25X1

25X1

[redacted]

Libya: Reaction to US Sanctions [redacted]

25X1

US sanctions have disrupted some Libyan oil exports by increasing marketing difficulties and have had some adverse impact on agriculture and selected development projects. Moreover, the current drop in oil prices will limit the Libyan leader's ability to redress domestic grievances and provide a focal point for his opponents to gain popular support. Nonetheless, US actions probably have bought Qadhafi some respite from antiregime activity that had spread to his security forces and his inner circle of advisers by the end of last year. Qadhafi can be expected to be aggressive in looking for ways to circumvent US economic measures and strike out at US or Western interests, including possible terrorist operations targeting Saudi Arabian oil facilities. [redacted]

25X1

Allied Response to US Sanctions

None of our allies have implemented broad sanctions—many countries have publicly refused to do so—although most have expressed some sympathy for US sanctions against Libya and have agreed to stop exports of arms. Only Canada, Italy, France, and West Germany have taken some positive steps to limit relations with Libya:

- ***Italy*** has prohibited public firms from filling in and is pressuring private firms to go along. All military trade with Tripoli is suspended until further notice. Rome admits, however, that it has little control over smaller Italian firms who may be eager to do business with Libya.

- ***Canada*** canceled export insurance for firms doing business with Libya and is banning the sale of some petroleum-related equipment.

- ***West Germany*** will not provide export credit guarantees to firms that are filling in for US firms.

- ***France*** apparently has stopped shipments of spare parts for civilian aircraft, but did so because of recent Libyan military activity in Chad.

- Other West European states and ***Japan*** have either taken no action or only advised domestic firms not to fill in for US companies. In many cases, this advice is having little impact. The Confederation of British Industries last month reaffirmed its longstanding policy that trade should be carried out on the basis of commercial considerations. [redacted] 25X1

Filling the Gap

Qadhafi may be going on the economic offensive to circumvent US sanctions. [redacted] 25X1

[redacted] 25X1

Tripoli will continue to pressure wealthy Arab states for financial assistance if cash flow difficulties become acute; so far, Qadhafi's requests for Arab economic support have fallen on deaf ears. [redacted] 25X1

25X1

While available evidence suggests that some foreign firms are filling in for US companies, it is often difficult to determine whether a specific company's activity is an effort to undercut US sanctions, or part of an ongoing business relationship:

- [redacted] 25X1
  [redacted] US oil service companies and most US technicians are being replaced by firms and personnel from the United Kingdom, France, and West Germany. 25X1

[redacted]

- [redacted] a British firm is planning to replace some US oil service company operations and anticipated having 250 employees in Libya by 1 March, and that Canadians have replaced 100 workers previously employed by Occidental.

- [redacted] the French firm Compagnie Generale de Geophysique is likely to replace a US seismic crew and that Schlumberger replaced all its US personnel in Libya with French nationals. [redacted]

25X1

We believe that declining business opportunities worldwide, especially for oil service companies, probably will lead more foreign firms to pursue openings left by US companies. Foreign firms, including several from South Korea, Spain, and Japan, have expressed interest in—or have actually taken over—previous US contracts for civil engineering and construction projects in Libya such as the Great Manmade River project. [redacted] 25X1

Impact on the Oil Industry

[redacted] US companies in Libya are complying with the law and have stopped all liftings. [redacted] the US restrictions have delayed some petroleum-related projects but caused no serious disruption in oilfield operations. We believe most US citizens have left Libya—an estimated 200 remain. The freeze on Libyan financial assets has prevented Tripoli from collecting some $150 million for oil sold in December. [redacted]

25X1
25X1
25X1

We have no evidence that other countries are cutting back oil purchases in response to US sanctions. In several instances European firms have recently initiated new petroleum contracts with Tripoli. French officials claim they will press their oil companies to reduce imports of Libyan oil, and Spain has discontinued government-to-government oil purchases from Libya—in both cases for reasons unrelated to US sanctions. [redacted] 25X1

Libya is experiencing some difficulty marketing its oil because of the soft oil market as well as the US sanctions. [redacted] Libyan oil production may have fallen by as much as 200,000 b/d in the last month, to about 1 million b/d. Tripoli is attempting to negotiate netback pricing deals, primarily with Mediterranean refiners, to sell oil previously lifted by US companies. A further drop in exports is possible in the current glutted oil market, however, without sharp price discounts. By midyear Tripoli may be able to make up for most sales lost because of US sanctions by increasing crude product exports from the Ra's al Unuf refinery and by distributing more products in

25X1
25X1
25X1
25X1

Italy from Libya's recently purchased TAMOIL refinery. [redacted]

An increasingly tough posture toward the US producing companies probably indicates that Tripoli now realizes they must be replaced. [redacted] In addition, Libyan oil officials have stopped communicating with US oil producers except through telex messages—suggesting Libya wants documentation for legal proceedings against the US producers. Firms from several countries, including Argentina, Austria, Italy, and Hungary, are interested in taking over US oil concessions in Libya. With US producing companies unable to sell their assets to foreign firms or subsidiaries, however, Libya will try to buy out the US concessions on attractive terms. Forced nationalization probably would be a last resort because it would further damage Tripoli's reputation and might hamper resale of US concessions to foreign interests. [redacted]

The Domestic Impact of US Sanctions

US sanctions have contributed to growing popular grievances by reducing Qadhafi's room to maneuver domestically. The assets freeze caught the regime off guard, denying it access to at least $750 million—13 percent—of total financial reserves. [redacted] US sanctions have precluded Libya from purchasing 800 metric tons of US seed, which could reduce vegetable and grain production by 15 percent this year and exacerbate the nationwide food shortage. Moreover, [redacted] poor rations during the prolonged military alert in response to US naval operations reduced morale in some military units, causing some soldiers to solicit food from relatives. [redacted]

The confrontation with the United States, however, has provided Qadhafi with a brief respite from the deterioration of his internal position. Available evidence indicates that Qadhafi's senior advisers have suspended their factional infighting. Potential coup plotters probably will lie low for the time being to avoid being identified as US puppets. At the same time, Qadhafi has been unable to use the current tensions with Washington to expand his dwindling domestic support. [redacted]

25X1 25X1 25X1

Outlook

25X1

In a recent speech to the Libyan General People's Congress, Qadhafi declared that Libya had "won" its confrontation with the United States and reiterated his determination to defend the Gulf of Sidra. The congress also issued resolutions calling for economic sanctions against the United States and continued support for "liberation movements." While many of Qadhafi's comments seem defensive, the lack of US military action against Libya almost certainly has bolstered Qadhafi's conviction that he has once again weathered the crisis with Washington. Qadhafi may well choose to pursue a more aggressive policy—including terrorist activities—against US and Western interests, especially if he can conceal his hand by operating through anti-Arafat Palestinians or groups. [redacted]

25X1 25X1

Soft oil market conditions pose the greatest threat to the economy and probably the regime. While a $20 per barrel oil price this year probably would have little impact on the economy, given current export levels, an average price of $15 per barrel would force Tripoli to make difficult and politically risky choices. The oil glut will make it even harder for Tripoli to maintain oil barter arrangements with the Soviets, the Italians, and others, who are owed some $4 billion. Mandatory import reductions under the $15 per barrel scenario almost certainly would cause domestic discontent to reach regime-threatening levels and force Qadhafi to rely even more heavily on repression and security forces to remain in power. [redacted]

25X1 25X1 25X1 25X1 25X1 25X1 25X1

[redacted]